

**UNITED STATES BANKRUPTCY COURT
DISTRICT OF DELAWARE**

In Re: W.R. GRACE & CO., et al., Debtors.	§ § § § § §	Chapter 11 Jointly Administered Case No. 01-01139 (JKF)
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**FEE AUDITOR'S FINAL REPORT REGARDING
INTERIM FEE APPLICATION OF THE BLACKSTONE GROUP L.P.
FOR THE TWENTIETH INTERIM PERIOD**

This is the final report of Warren H. Smith & Associates, P.C. ("Smith"), acting in its capacity as fee auditor in the above-captioned bankruptcy proceedings, regarding the Interim Fee Application of the Blackstone Group L.P. for the Twentieth Interim Period (the "Application").

BACKGROUND

1. The Blackstone Group L.P. ("Blackstone") was retained as financial advisers to the Debtors. In the Application, Blackstone seeks approval of fees totaling \$250,000.00 and costs totaling \$3,203.76 for its services from January 1, 2006, through March 31, 2006.

2. In conducting this audit and reaching the conclusions and recommendations contained herein, we reviewed in detail the Application in its entirety, including each of the time and expense entries included in the exhibits to the Application, for compliance with Local Rule 2016-2 of the Local Rules of the United States Bankruptcy Court for the District of Delaware, Amended Effective February 1, 2001, and the United States Trustee Guidelines for Reviewing Applications for Compensation and Reimbursement of Expenses Filed Under 11 U.S.C. § 330, Issued January 30, 1996, (the "Guidelines"), as well as for consistency with precedent established in the United States

Bankruptcy Court for the District of Delaware, the United States District Court for the District of Delaware, and the Third Circuit Court of Appeals.

DISCUSSION

3. While Blackstone was retained pursuant to an engagement agreement providing for Blackstone to be paid a flat monthly fee of \$175,000.00¹, its fees remain subject to the provisions of 11 U.S.C. § 330. The Order Appointing Fee Auditor in Accordance with the Court's Direction (the "Fee Auditor Order") provides that:

[t]his order applies to (i) all professionals in these cases employed or to be employed pursuant to sections 327, 328 or 1103 of the Bankruptcy Code; and (ii) any claims for reimbursement of professional fees and expenses under section 503(b) of the Bankruptcy Code to the extent permitted by the Court, except: (a) professionals providing services pursuant to an order that does not require submission of fee applications; and (b) professionals retained pursuant to the Court's Order pursuant to §§ 1107(a) and 1108 Authorizing the Debtors to Employ and Compensate Certain Professionals Utilized in the Ordinary Course of the Debtors Business, dated May 3 2001.

Fee Auditor Order at 2 (internal footnote omitted). Accordingly, we have reviewed the Application to determine compliance with the requirements of section 330.

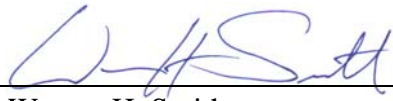
4. We note that Blackstone professionals spent a total of 232.7 hours for which fees totaling \$250,000.00 are sought. The effective hourly rate is \$1,074.34. While we believe this effective hourly rate to be very high, it is the first time that it has reached this level. We note that in the prior two interim periods, the effective hourly rates for Blackstone were \$705 and \$830. We will continue to monitor Blackstone's fees and level of activity in this case, and, if we deem it advisable, we may recommend a further reduction in its standard monthly fee.

¹In its application, Blackstone states that it has voluntarily reduced its fees based on the current level of its activity in the case. Blackstone filed for fees of \$50,000.00 in January, \$100,000.00 in February, and \$50,000.00 in March.

5. We have no objections to, or issues with, the Application, and thus we did not send an initial report to Blackstone.

Respectfully submitted,

WARREN H. SMITH & ASSOCIATES, P.C.

By: 
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FEE AUDITOR

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing document has been served First Class United States mail to the attached service list on this 30th day of August, 2006.


Warren H. Smith

SERVICE LIST

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